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Filed: 11/10/2006 09:03

**CROSS REFERENCE OR
POINT OF FILING**

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EXECUTIVE SECRETARIAT

Routing Slip

NIO/ECON

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
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7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
20	<i>NIO/ECON</i>		✓		
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SUSPENSE

Date

Remarks:

Executive Secretary

6/7/82
Date

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THE WHITE HOUSE
WASHINGTON

Executive Registry

82-2492/15

CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 6/4/82 NUMBER: 077303 CA DUE BY: _____
SUBJECT: Cabinet Council on Economic Affairs

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	M. Wheeler	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Larry Kudlow	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Ed Gray	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: The CCEA will meet on Tuesday, June 8 at 8:45 am in the Roosevelt Room. The agenda papers for item #2 are attached. The first agenda will be a report by Secretary Regan of the Versailles Economic Summit.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs

☒ Becky Norton Dunlop
Director, Office of
Cabinet Affairs

Called to / Interviewed / message
10:30 - 7 June '82

Jun 5 9 33 AM '82

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THE WHITE HOUSE
WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

June 8, 1982

8:45 a.m.

Roosevelt Room

AGENDA

1. Versailles Summit (CM#234)
2. Wage Developments (CM#147)

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20506

June 4, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

From: Murray L. Weidenbaum *W*

Subject: The Outlook for Wages

Introduction

Wages have risen at a considerably lower rate over the last twelve months than over the same period a year earlier. This slowdown is typical of wage behavior during recessions. As inflation falls and unemployment rates rise, the rate of increase in wages also declines. A crucial question is what will happen to wages as the economy emerges from the current recession. During previous recessions, the Federal Government adopted stimulative monetary and fiscal policies and wage growth rates eventually returned to previous peaks.

Wage Increases, Prices, and Unemployment

Increases in average hourly compensation, presented in Table 1, have slowed from 10.6 percent at the beginning of 1981 to 8.2 percent at the beginning of 1982. Other wage measures show similar patterns over the past year.

The slowdown in wage increases results primarily from two factors -- lower rates of increase in consumer prices and higher unemployment rates. The Consumer Price Index rose 10 percent during the twelve months ending in April 1981, but only 6.6 percent during the twelve month period ending in April 1982. Thus, workers' wages retained greater purchasing power while they grew less rapidly. The unemployment rate rose from 7.3 percent in April 1981 to 9.4 percent in April 1982, encouraging at least some workers to accept jobs at lower wages.

The decline in wage increases during the past year closely resembles what occurred in the 1974-1975 recession. From the third quarter of 1974, when unemployment began to rise sharply, to the end of 1975, when wage increases stabilized, growth in hourly compensation fell by 2.7 percentage points. The decline from the peak rate of wage growth in the first quarter of 1975 was 4 percentage points. So far during the current recession, the rate of wage growth has fallen by 2.4 percentage points from the peak reached in the first quarter of 1981.

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Table 1

WAGES, PRICES, AND UNEMPLOYMENT

	<u>Compensation Per Hour¹</u>	<u>Real Hourly Compensation^{1,2}</u>	<u>Consumer Price Index¹</u>	<u>Unemployment Rate</u>
<u>1974-1975 Recession</u>				
1974:III	10.5%	-0.8%	11.5%	5.6%
1974:IV	10.9	-1.1	12.1	6.6
1975:I	11.8	0.6	11.0	8.2
1975:II	10.0	0.5	9.7	8.9
1975:III	8.1	-0.5	8.7	8.5
1975:IV	7.8	0.4	7.3	8.3
<u>1981-1982 Recession</u>				
1981:I	10.6	-0.6	11.2	7.4
1981:II	10.1	0.3	9.8	7.4
1981:III	10.1	-0.6	10.9	7.4
1981:IV	9.3	-0.2	9.6	8.3
1982:I	8.2	0.7	7.6	8.8

¹ Percent change from same quarter a year earlier.

² Real hourly compensation is calculated as compensation per hour divided by the Consumer Price Index.

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In view of the continuing moderation in inflation and the increase in unemployment since the first quarter of this year, it is likely that wage increases will decline further. The drop in the rate of wage increases during the current period provides welcome news on the inflation front. However, it does not indicate any change in the nation's labor markets unique to this recession.

Union Contracts

In addition to the cyclical forces that are dampening wage increases throughout the economy, certain industries face structural changes as well. These structural difficulties arise from (1) increased import competition, (2) deregulation, and (3) a long-run decline in demand for the industry's output. In response to these structural pressures, some unions have recently accepted cuts in nominal compensation. Examples include unions in the automobile, trucking, airlines, textiles, meat packing, and rubber industries.

These givebacks have received a great deal of publicity, but similar pay cuts are not common in industries not facing permanent declines in employment. In spite of high cyclical unemployment in the unionized sector of the economy, wage increases in union contracts signed so far this year have averaged 7.8 percent -- down from 9.3 percent during the same period last year. Settlements that provide for no wage increase are the exception, not the rule.

Most of the major union contracts coming up for negotiation during the remainder of the year, listed in Table 2, are not generally in industries which face long-term difficulties. For example, electrical machinery and aerospace have healthy future prospects despite current difficulties. Settlements in these industries are likely to exceed nation-wide averages.

Table 2

MAJOR CONTRACTS EXPIRING IN 1982

<u>Industry</u>	<u>No. of Workers</u>	<u>Month</u>	<u>Union</u>
Shipbuilding	15,500	June	Ship-building workers
Electrical machinery	150,000	June, July, Dec.	IUE, IBEW
Autos (Chrysler)	124,000	Sept.	UAW
Aerospace	34,000	Nov., Dec.	Machinists and Carpenters

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Conclusions

The current slowing of wage increases is consistent with previous periods of high unemployment and sharply declining inflation. History indicates that if price increases return to previous high rates, wage increases will as well. Good news on wage trends will only continue if the Administration and the Federal Reserve persist and succeed in their efforts to restrain inflation.